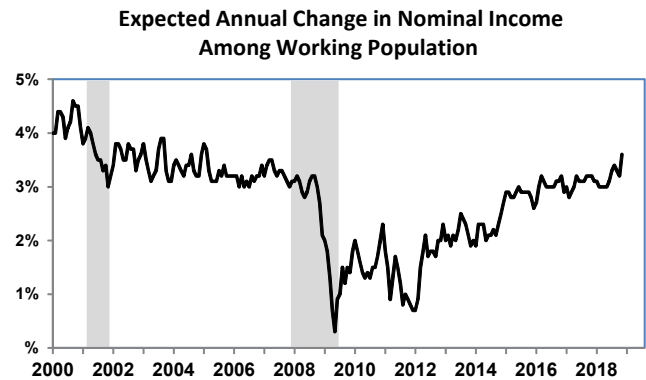


Subject: Preliminary results from the November 2018 survey  
From: Richard Curtin, Director

November 9, 2018

Consumer sentiment remained virtually unchanged in early November from its October reading. Importantly, interviewing went through Wednesday night so there was only a one-day overlap after the mid-term election results were known by consumers. Those few cases held expectations that were identical with the data collected earlier in the month, which is not so surprising given that the split between the House and Senate was widely anticipated. Moreover, there was little change in the partisan gap between Democrats and Republicans in consumers' economic expectations. The unchanged data meant that the Sentiment Index remained higher thus far in 2018 (98.4) than in any prior year since 2000—that was the last year of the longest expansion since the 1850s, which we now hope to exceed. The stability of consumer sentiment at high levels acts to mask some important underlying shifts. Income expectations have improved and consumers anticipate continued robust growth in employment, but consumers also anticipate rising inflation and higher interest rates. While these positive and negative changes act to offset each other in the aggregate, younger consumers have benefited most from more positive income trends and older consumers are more likely to complain about the erosion of their living standards due to rising prices; rising interest rates weigh heavily on younger consumers who are more likely to borrow, and older consumers are more likely to benefit from higher returns on their savings. Expansions have always exhibited these offsetting trends; good economic times are never perfect. While there are indications that the pace of growth will slow in the year ahead, the key to the future economy is how and when the heightened economic and political uncertainties are resolved.



The personal financial situation of consumers has improved in recent months. Just over half of all consumers reported that their finances had recently improved, with 42% mentioning income gains in early November. When asked about expected gains in nominal incomes during the year ahead, an increase of 2.4% was expected across all consumers, just below the 2.5% in June, which was the highest in the past decade. Among the working age population, consumers between the age of 25 and 54, the anticipated annual gain in nominal household income was 3.6%. Overall, just 9% of all households anticipated a worsening financial situation during the year ahead in the November survey, not much above the all-time low of 3% in 2000.

The year-ahead expected inflation rate was 2.8% in November, just below last month's 2.9% and well above last year's 2.5%. Year-ahead inflation expectations have shown only small variations since last December, remaining in the narrow range of 2.7% to 3.0%. The annual long term inflation rate was expected to be 2.6% in November, up from 2.4% in both last month's and last year's surveys. Long term inflation expectations have varied between 2.4% and 2.6% during the past year. Although inflation expectations have remained slightly elevated in the past year, the data provide no evidence of upward momentum.

Favorable vehicle buying attitudes fell to a five-year low due to higher prices and higher interest rates for new vehicle purchases. Favorable home buying attitudes fell to the same low as in August 2018, which was the lowest in a decade. Even the small increases in mortgage rates have meant that in the past two months consumers have viewed them as the least favorable in a decade. These negative trends in prices and interest rates were partially offset by greater certainty about job and income prospects. Overall, the net declines will act to slightly reduce the number of homes and vehicle sales in the year ahead, and act to slow the overall pace of growth in real personal consumption spending to 2.6% in the next 12 months.

	Nov 2017	Dec 2017	Jan 2018	Feb 2018	Mar 2018	Apr 2018	May 2018	June 2018	July 2018	Aug 2018	Sept 2018	Oct 2018	Nov Prelim
Index of Consumer Sentiment	98.5	95.9	95.7	99.7	101.4	98.8	98.0	98.2	97.9	96.2	100.1	98.6	98.3
Current Economic Conditions	113.5	113.8	110.5	114.9	121.2	114.9	111.8	116.5	114.4	110.3	115.2	113.1	113.2
Index of Consumer Expectations	88.9	84.3	86.3	90.0	88.8	88.4	89.1	86.3	87.3	87.1	90.5	89.3	88.7
Index Components													
Personal Finances—Current	127	127	126	133	142	133	130	136	133	133	135	130	131
Personal Finances—Expected	132	127	131	133	132	131	129	128	134	131	135	131	128
Economic Outlook—12 Months	123	119	121	124	120	113	122	117	116	118	123	123	117
Economic Outlook—5 Years	103	93	95	105	105	111	108	102	101	101	106	105	111
Buying Conditions—Durables	168	168	160	166	173	165	160	166	164	154	164	163	163